



www.balhoffrowe.com

5457 Twin Knolls Road, Suite 101, Columbia, Maryland 21045

443-542-5810

**Michael J. Balhoff** / Managing Partner

410-984-8400

Fax 443-542-5811

balhoff@balhoffrowe.com

**Robert C. Rowe** / Senior Partner

406-461-4991

rowe@balhoffrowe.com

**Bradley P. Williams** / Partner

704-582-2387

Fax 704-944-3162

bwilliams@balhoffrowe.com

FILED ELECTRONICALLY

December 10, 2007

Ms. Marlene H. Dortch, Secretary  
Federal Communications Commission  
445 Twelfth Street, SW  
Washington DC 20554

Re: WC Docket No 05-337, CC Docket No. 96-45 – *Ex Parte* Presentation

Dear Ms. Dortch:

On December 10, 2007, I met with John Hunter, Chief of Staff for Commissioner McDowell. The attached document was discussed. The meeting was held on behalf of CenturyTel.

Sincerely,

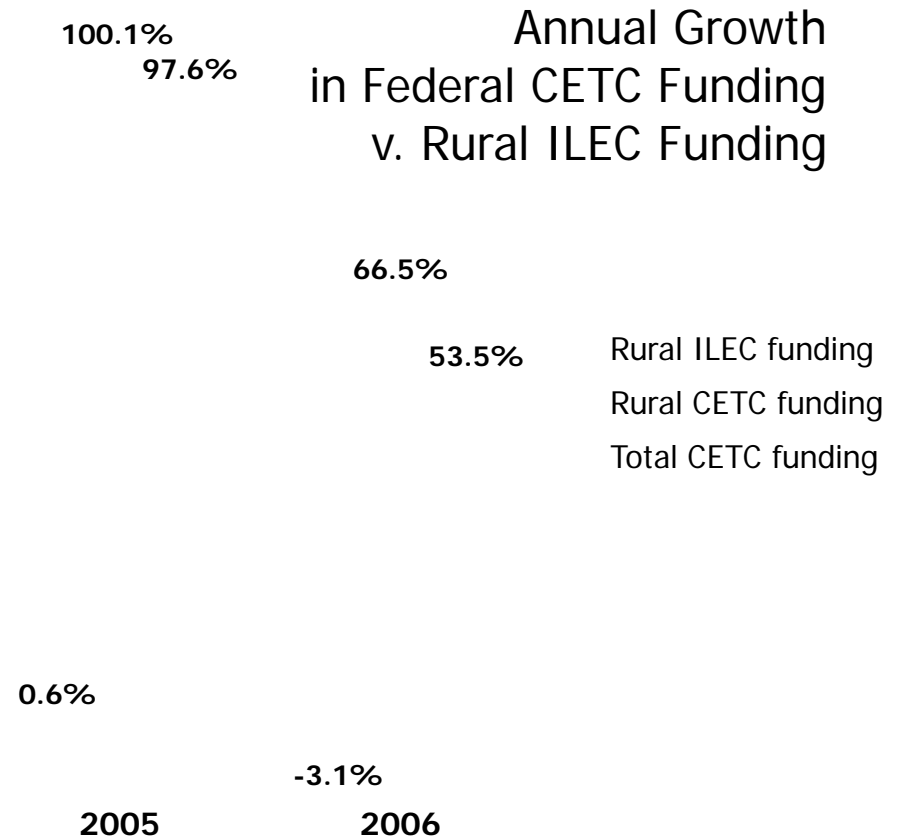
Robert C. Rowe  
Senior Partner



Michael J. Balhoff, CFA  
Robert C. Rowe, JD  
Bradley P. Williams, JD

# Perspectives on USF Growth

- CETC federal USF funding continues to expand rapidly
  - Total CETC funding grew by 97.6% from 2004 to 2005 to \$639 million, and then by 53.5% to \$980 million by 2006
  - Rural CETC funding grew 100.1% from 2004 to 2005 to \$316 million, and then by 66.5% in 2006 to \$526 million
- Rural ILEC funding is under pressure, as growth in 2005 was 0.6% and then -3.1% in 2006
- Thus the highest-cost parts of the network are receiving no new funding even as broadband investment requirements are rising



Source: USAC Annual Reports and HC05-HC09 appendices.  
Prepared by Balhoff, Rowe & Williams, LLC

# CETC Rural Funding

- CETC funding in rural regions is growing faster than the total CETC funding
- No strict obligations exist to use the funding for investment
- Interstate Common Line Support, which is based in part on access replacement, is now nearly 40% of the total in spite of the fact that no access revenues were withdrawn from wireless companies
- Suggest matching wireless/CETC support with specific, appropriate outcomes

Rural CETC Funding			
	2004	2005	2006
High cost loop	\$69,229,913	\$140,463,552	\$239,473,650
Safety net	\$1,342,213	\$2,398,431	\$4,274,388
Safety valve			\$745,008
Local switching sup	\$35,714,571	\$56,420,758	\$84,101,214
ICLS*	\$51,470,285	\$116,315,502	\$196,925,121
	<b>\$157,756,982</b>	<b>\$315,598,243</b>	<b>\$525,519,381</b>

Growth in Rural CETC Funding		
	2005	2006
High cost loop	102.9%	70.5%
Safety net	78.7%	78.2%
Safety valve		NM
Local switching support	58.0%	49.1%
ICLS*	126.0%	69.3%
	<b>100.1%</b>	<b>66.5%</b>

Percent of Total Rural CETC Funding			
	2004	2005	2006
High cost loop	43.9%	44.5%	45.6%
Safety net	0.9%	0.8%	0.8%
Safety valve	0.0%	0.0%	0.1%
Local switching sup	22.6%	17.9%	16.0%
ICLS*	32.6%	36.9%	37.5%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\*2004 ICLS includes LTS

Source: USAC HC05-HC09 appendices; prepared by Balhoff, Rowe & Williams, LLC

# *USF Contraction for Large RLECs*

2004-2006 "Growth"  
In Large Rural Company  
Federal USF Funding

CenturyTel	Embarq	Citizens
-12.3%		-12.2%
	-20.2%	

Actual federal USF payments; prepared by Balhoff, Rowe & Williams, LLC.

- Largest rural carriers are reporting significant contraction in federal USF receipts
- Among explanations . . .
  - Increased efficiencies at companies with publicly-traded stock
  - Unanticipated effects of Rural Growth Factor as investment continues but the number of access lines contract